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SUBJECT: BOSNIA-BOSNIAK PARTIES VIE FOR CONTROL OF PUBLIC
COMPANIES

REF: SARAJEVO 2247

Classified By: DCM Judith Cefkin. Reasons 1.4 (b) and (d)

11. (C) Summary. Since taking office in April in the Federation, the leadership of the Party of Democratic Action (SDA) and Party for BiH (SBiH), the two largest Bosniak affiliated parties, have jockeyed for control of two large Federation-run enterprises, BiH Telecom and Elektroprivreda BiH. Both parties have made very little attempt to hide their intention to use the firms as sources of operating revenue and, less openly, means to enrich their leadership. The spoils may soon become even more significant as the Federation's new privatization plan could potentially generate roughly four billion KM. The fight over controlling interests in the firms has led to an increasingly open confrontation between SDA and SBiH and has also exacerbated tensions within the SDA party hierarchy. OHR previously ensured the independence of state-run industries from political control, but the decision to end this work has made it easier for politicians to engage in corruption. Unfortunately recently established state-level law enforcement and judicial institutions are not yet mature enough to tackle these problems effectively. Plans to reconstitute the OHR anti-corruption unit, and other reforms targeting organized crime, would buttress locally managed efforts to tackle corruption and, more importantly, provide the High Representative with a useful tool for taking on political leaders blocking reforms and radicalizing Bosnian politics. End summary.

Two parties divide the spoils

12. (C) As part of the coalition agreement forming the Federation government, SDA and SBiH also reached a parallel agreement on the controlling interests of two large Federation-run industries, BiH Telecom and JP Elektroprivreda BiH. The parties decided that SDA would be given control over BiH Telecom, with Elektroprivreda going to SBiH. In keeping with this agreement, Federation Prime Minister Nedžad Branković (SDA) shortly after assuming office announced his intention to restructure the leadership of select Federation firms and industries, including BiH Telecom and Elektroprivreda. The restructuring plan would create new positions on the managing boards of both firms to be filled

by SDA and SBiH appointees. Brankovic even floated a plan to move the Federation government offices to the Elektroprivreda building. BiH Telecom accepted to the restructuring plan, and SDA moved quickly to replace its general manager.

13. (C) Elektroprivreda General Manager Enver Kreso, however, opposed the SBiH takeover process. The SBiH effort was led by Minister of Energy, Mining and Industry, Vahid Heco who publicly admitted that he reported directly to SBiH party leader Haris Silajdzic on the matter. Kreso secured a Sarajevo Cantonal Court injunction against the proposed board changes. Elektroprivreda and Kreso also solicited SDA President Sulejman Tihic's support in their efforts to block the SBiH restructuring. Having already consolidated SDA control over BiH Telecom, Tihic and other SDA leaders reneged on their coalition agreement by publicly voicing their support for Elektroprivreda's challenge to the SBiH takeover. The Cantonal Court injunction has, for the moment, blocked SBiH plans to assert control over the company. The party will likely wait until the March, 2008 expiration of the sitting board's mandate to revisit attempts to control the company. SDA's backing of Kreso constituted a significant challenge to SBiH interests by blocking the party's access to 640 million KM (USD 463 million) in 2006 Elektroprivreda revenues.

14. (C) The fight over control of the two firms has also had an impact on internal SDA dynamics. Bakir Izetbegovic, the primary rival of SDA president Sulejman Tihic, worked with his ally PM Brankovic to appoint Nedžad Residbegovic as the new general manager of BiH Telecom. Residbegovic is a longtime friend of Izetbegovic's brother-in-law Jasminko Aksamija. Party insiders tell us that Tihic was not consulted on Residbegovic's appointment, and viewed the move by Izetbegovic and Brankovic as a challenge to his control of

SDA. Residbegovic's control of BiH Telecom as it moves towards privatization also seemingly deprives Tihic of resources he could use to solidify his position within SDA. (Note: Federation TV publicly challenged Brankovic to explain why BiH Telecom management included so many of his and Izetbegovic's relatives. Brankovic feebly replied that Bosnia was a small country and many people were related. End Note.)

Privatization plans raise the potential for serious money

15. (C) At an October 16 OHR economic reform conference (reftel), and privately during the Ambassador's introductory call on October 17, PM Brankovic referred to the Federation's new privatization policy as a source for funds to meet the Federation's huge infrastructure construction needs. The draft policy which was recently submitted to the Federation Parliament anticipates the sale of nine companies in which the Federation has an interest for a total in excess of four billion KM. The biggest privatizations would be BH Telecom of which the Federation owns 90% and its 51% of the Mostar-based telecom company, HT Mostar. The expected proceeds from those deals alone, depending on how they are structured, could be as high as 3.9 billion KM. The proposed telecom deals are especially interesting in that the two alternative BH Telekom deals are structured to include between 13% and 23% in sales of shares in the company on either or both foreign markets or the Sarajevo Stock Exchange - a possible easy method for well connected individuals to cash in on the expected high interest in BH Telecom. Also interesting is the policy's explicit rejection of privatization of even a minority share of Elektroprivreda until "restructuring" is completed.

No Adult Supervision

16. (C) OHR, through its anti-corruption unit, previously exercised oversight in this area to prevent privatization

fraud and mismanagement of public funds. In 2003, OHR imposed the Law on Ministerial and Government Appointments and the Law on Donations, intended to limit the influence of political parties over publicly owned enterprises. This was in addition to the high profile dismissals of such top party officials as former SDA vice president and former Elektroprivreda BiH general manager, Edhem Bicakcic. However, the closure of OHR investigative capabilities has significantly degraded its capacity to effectively highlight examples of public corruption for prosecution under the legislation. Bosnian prosecutors and courts still lack the capacity and political will to challenge the corrupt practices by the parties.

Comment

17. (C) SDA and SBiH are surprisingly open about their use of Federation-owned enterprises as prime sources of revenue. If the Brankovic privatization plan is implemented and the proceeds are earmarked for infrastructure construction, the parties will also have bites at the apple from the privatizations as well as construction contracts. OHR staff tell us that SDA and SBiH actions are one reason why they want to reconstitute the former corruption investigation unit. Another is the role the material the unit develops could play in developing cases against the most prominent Bosnian politicians responsible for radicalization of Bosnian politics. This would be a welcome development as the international community currently has few tools with which to expose rampant corruption being perpetrated by many Bosnian leaders. The OHR anti-corruption unit, in combination with plans to reorganize and reenergize the State Court Special Department for Organized Crime (SDOC), would constitute valuable contributions to our ability challenge obstructionist politicians on their corrupt practices.

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